

Service Date: November 14, 1984

DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

IN THE MATTER of the Application of	)	UTILITY DIVISION
AT&T COMMUNICATIONS OF THE	)	
MOUNTAIN STATES, INC. For interim	)	DOCKET NO. 83.11.80
and final approval in interim and final	)	
intrastate Tariffs.	)	ORDER NO. 5044c

FINDINGS OF FACT

1. AT&T Communications of the Mountain States, Inc. (hereafter AT&T Communications or Company) filed the original application in this docket on November 22, 1983. Interim orders 5044a and 5044b are the basis for the tariffs which established the rates for AT&T Communications' services.
2. On July 13, 1984 AT&T Communications revised its application, testimony and revenue requirement. Concurrent with this revised filing, the Company requested additional interim earnings relief in the amount of \$1,357,000.
3. AT&T Communications' filing utilizes a 1984 test year. All calculations contained therein are based on estimated or budgeted data.
4. The Commission has expressed concern over the accuracy of projected data in prior AT&T Communications and Mountain Bell interim orders. Wherever possible the Commission has relied on actual data in reviewing the need for interim relief. Therefore, for purposes of analyzing this interim request the Commission will rely primarily on actual results of operations.
5. It is the Commission's understanding that only one-half of the revenues for traffic Involving Northwestern Telephone Systems, Inc., territory are included in the actual results of operations for AT&T Communications. The revenues for traffic originating in Northwestern Telephone Systems territory have been booked by the Company. However, revenues from traffic terminating in Northwestern Telephone Systems territory have not been booked. Therefore, it is appropriate to adjust the Company's actual results of operations for these revenues. Based on the

original AT&T Communications budget the adjustment would increase net operating Income by \$1,118,000 annually.

6. The Commission finds that two other adjustments are appropriate for Interim purposes. These two adjustments deal with the elimination of advertising expenses and the removal of deferred state income taxes. The Company included both of these adjustments in it's interim proposal.

7. It appears that the Company's rate base budget is fairly close to experienced results. The average rate base presented by the Company is \$13,439,000. The actual rate base at June 30 is \$13,870,000 and seems to be declining in the July through September time frame. The Commission will use the \$13,439,000 rate base in determining interim revenues since it appears reasonably accurate.

8. The Commission finds that AT&T Communications is entitled to Interim earnings relief in the amount of \$816,000 as follows:

AT&T COMMUNICATIONS MONTANA INTRASTATE OPERATIONS  
(000)

1.	Net Operating Income - January-September	(401)
2.	Net Operating Income - Annualized	(535)
3.	Required Net Operating Income (13,439 + 49) X .1123	1,515
4.	Net Operating Income Deficiency	2,050
5.	Advertising Adjustment	(92)
6.	Deferred State Income Tax Adjustment	(24)
7.	Northwestern Telephone Systems Revenue Adjustment	(1,188)
8	Adjusted Net Operating Income Deficiency	<u>816</u>

To satisfy this earning deficiency the Commission must increase revenues or decrease expenses in the amount of \$1,620,000<sup>1</sup> due to the effect of taxes.

9. The Commission is aware that several areas in the Company's actual results of operations could change significantly in the near future. Arrangements between Mountain Bell and AT&T Communications for traffic which originates in Mountain Bell's western Montana LATA and terminates in Northwestern Telephone Systems territory have not yet been finalized. There may also be a true-up in contract billings between Mountain Bell and AT&T

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<sup>1</sup> \$816,000 X 1.9859 (Net to Gross Multiplier) = \$1,620,000

Communications. The Commission has not given effect to these contingencies since they cannot be quantified. Hopefully any material changes can be quantified by the Company and presented to the Commission in the January hearings in this docket.

10. Relief from a recognized earnings deficiency can be afforded by either increasing revenues or decreasing costs of operation while maintaining revenues. Traditionally, the Commission would grant a utility interim relief by allowing increased rates for services provided by the utility and thereby increasing revenues. The problem has been historically approached from the revenue side of the equation because that is the element controlled by the Commission. However, in the case of AT&T Communications, the Commission also controls the cost of operations element to a large extent. Approximately 75% of AT&T Communications' cost of operations is made up of the payment of access charges to local exchange carriers. The level of those access charges is established by the Commission. Therefore the Commission is in a position to approach the question of interim relief from either side of the equation.

11. The Commission finds that for purposes of granting interim relief, it would be more appropriate to decrease the level of access charges paid by AT&T Communications than it would be to increase the rates for services provided by AT&T Communications. That AT&T Communications is experiencing a revenue deficiency implies that either the services it provides are underpriced or the access charges it pays are too high. Neither the Commission's investigation into AT&T Communications' pricing (Docket No. 83.11.80) or into access charges (Docket No. 84.4.15) has progressed far enough to definitively answer this question.

12. Nonetheless, it appears at this time to be unlikely that AT&T Communications' services are underpriced. AT&T Communications' rates for interLATA services are higher than Mountain Bell's rates for comparable intraLATA services. AT&T Communications' rates are also generally higher than comparable rates in the adjacent states of Idaho, Wyoming, North Dakota and South Dakota. Unless it is established on a cost of service basis that rates for interLATA services of AT&T Communications should be raised, this discrepancy should not be allowed to grow. Users of AT&T Communications' interLATA services have already been subjected to two separate rate increases in prior interim orders since the first of the year. (See Order Nos. 5044 and 5044b). The Commission finds that it would be inappropriate to subject

these users to an additional Increase at this time when there is an alternative method of providing for the recognized earnings deficiency.

13. By the same token It is entirely possible that access charges are overpriced in many areas. Access charges, like rates for AT&T Communications' InterLATA services, have been established on an interim basis without benefit of final cost of service determinations. They were arrived at simply by mirroring interstate access charges which are based upon nationwide average costs and not Montana specific costs.

14. Finally the Commission is concerned that an additional rate increase to AT&T Communications' interLATA services at this time would constitute an improper price signal. These services are of the type that are generally perceived as being the most discretionary, the most competitive, and subject to the quickest technological advances. These factors would indicate that rates for these services should more likely be going down in the future and not continually upward. i interim relief through a decrease in access charges would at least allow the rates for AT&T Communications' InterLATA services to remain constant for a time.

15. The Commission has determined herein that Interim relief should be granted to AT&T communications in the form of reduced access charges. Actual modification of access charges must take place In the access charge docket, (No. 84.4.15). The Commission has Issued concurrently herewith Order No. 5055c in Docket No. 84.4.15. That order specifically modifies access charges in a manner that will afford AT&T Communications the Interim relief authorized herein.

#### CONCULUSIONS OF LAW

1. AT&T Communications Is a corporation providing telecommunication services In the state of Montana and as such Is a public utility within the meaning of 69-3-101, MCA.

2. The Montana Public Service Commission properly exercises jurisdiction over AT&T Communications' Montana operations pursuant to Title 69, Chapter 3, MCA.

3. Pursuant to 69-3.304, MCA. the Commission may, in Its discretion, grant temporary relief to a utility pending a hearing or final decision. Any interim relief granted may be subject to rebate with Interest if the final decision does not support earnings at the interim level.

4. The relief approved herein is just and reasonable on an Interim basis pending hearing and final decision.

#### ORDER

1. AT&T Communications Is hereby authorized increased earnings on an interim basis in the amount of \$816,000 annually. Such earnings are to be realized by decreasing the access charges paid by AT&T Communications in the amount of \$1,620,000. The reduction in access charges occurs In Order No. 5055a issued concurrently herewith.

2. The increased earnings authorized herein are granted on an Interim basis only. If the earnings authorized In the final order In this docket are lower than those authorized herein, the Commission may order a rebate of the excess Interim earnings with Interest.

DONE IN OPEN SESSION at Helena, Montana this 9th day of November,  
1984 by a vote of 5 to 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

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THOMAS J. SCHNEIDER, Chairman

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JOHN B. DRISCOLL, Commissioner

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HOWARD L. ELLIS, Commissioner

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CLYDE JARVIS, Commissioner

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DANNY OBERG, Commissioner

ATTEST:

Madeline L. Cottrill  
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.